

21st Legislative District

2002



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State Budget Guide



PaullShin State Senator

21st Legislative District

Dear Friends,

Winter 2002

I appreciate the opportunity to contact you as one of your representatives in the state Legislature. I hope the New Year is treating you well, and I wish you continued happiness and peace in the future.

As you probably know, I've been back in Olympia since Jan. 14, the first day of this year's legislative session. What you may not know is just how dire our state's current budget situation is. The projected \$1.25 billion shortfall is the worst we've faced in two decades.

At the same time, Washington's needs continue to grow. Our public schools must make room for about 12,000 new students in the next two years — something we did not anticipate last session. The Department of Social and Health Services and the Department of Corrections are seeing larger caseloads. The state's colleges and universities are facing a larger demand because of job retraining and the baby "boomlet" now entering these schools. Health-care costs continue to skyrocket, and Washington is experiencing one of the highest unemployment rates in the United States.

All this amounts to at least \$350 million in unanticipated costs and more than \$900 million in lost revenue.

Clearly, budget negotiations are going to dominate most other issues, as this year's session is short — only 60 days. That's why I've sent along this "Citizen's Guide to the Washington State Budget." Prepared by the Senate Ways & Means Committee, whose staff members play a vital role in writing the budget every year, this manual is designed to take some of the mystery out of a very complicated process. I hope you'll find it helpful.

Despite the difficulties we face this session, it is my duty as your state senator to persevere and help come up with a plan to get us out of this mess. The budget we agree on in the end needs to have an evenhanded approach: It should be a combination of using our reserves and making budget cuts and revenue adjustments. Needless to say, it will be absolutely necessary that we all pull together to come up with a fair and balanced budget.

Transportation, of course, will also be a big issue. I'm pleased to say that the Senate and the House of Representatives have already passed a number of the recommendations made by the Blue Ribbon Commission on Transportation for making our

transportation system more efficient. We will continue to drive hard on transportation during the next several weeks.

In light of the tragic events of Sept. 11, like most Americans, my heart has been heavy and my emotions have been full. As a country, we must be united in purpose and reflect on the principles that have made us great.

As always, I am honored to serve you. I want to do the job that meets your needs and satisfaction. If you have any questions or wish to contact me for any reason, I can be reached in Olympia via e-mail at shin_pa@leg.wa.gov or by phone at (360) 786-7640.

Sincerely,



Paull Shin

State Senator,
21st District

E-Update

Occasionally, I send out a quick, informal newsletter via e-mail. It's an easy way for you to get the most current information about what's happening in Olympia. If you'd like to be added to the mailing list, please contact my legislative assistant Scott Passey by e-mail at passey_sc@leg.wa.gov or by phone in Olympia at (360) 786-7640.

Sept. 11 and the Legislature

To say that the events of Sept. 11 were a shock to our country would be an understatement. The fact that it took such a horrific event to unite our country is a tragedy in itself. That having been said, we should use this time to be thankful for the freedom and opportunities we have here in the United States. And we must continue to have faith that we will overcome this tragedy.

Sept. 11 so profoundly changed our state's economy that we will not be merely adjusting our biennial budget this session — as is customary in an even-numbered year. We'll essentially be writing the budget anew. And there will have to be cuts. On the next page is a poem I wrote, inspired by my emotions following the Sept. 11 attack, that I would like to share with you.

America

By Paull Shin

*America, your name is New Land
Land of opportunity,
Land of enduring hope,
Admired by the nations,
Desired by its people.*

*A symbol of freedom,
An answer to liberty,
Sheltering those defeated by
oppression,
Beckoning those burdened with
despair,
Gathering all in a passionate
embrace.*

*In your magnificence,
You offer hope,
In your splendor,
You provide opportunity,
Too often misrepresented,
Too easily misunderstood,
Strong and mighty,
Yet humble in spirit.*

*Who dare to threaten,
Who dare to attack,
To inflict pain and suffering,
What caused these tears I see,
Flowing from your eyes?
Flooding the streams and rivers,
into the cities and homes.*

*The ends of the world would not
be too far,
My life not too precious,
To defend and sustain
Your unprecedented honor
Until justice rings true
Throughout the land.*

*The New Land —
your name is America,
Land of blessings,
Land of prosperity,
Protected by the seal,
“In God We Trust.”*

*Just as peace and tranquility
Follow the storm,
And a radiant sunrise
Clears the darkness,
Restoration begins as we unite.*

*You reign in our hearts,
Now stronger than ever,
Drawing all nations
To marvel at your grace.*

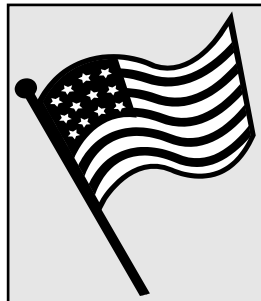


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Introduction

A Citizen's Guide to the Washington State Budget is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and simple overview of the state budget and state revenues. It describes the three basic state budgets and their interrelationships, the sources of revenue that support those budgets and how the money is spent.

A Citizen's Guide to the Washington State Budget was prepared by staff of the Senate Ways and Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) Committee. Questions regarding the guide or requests for additional copies should be addressed to:

Senate Ways and Means Committee

300 John A. Cherberg Building
PO Box 40483
Olympia, Washington 98504-0483

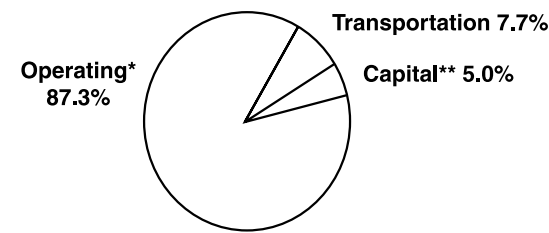
Telephone: 360-786-7715

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Web site: www.leg.wa.gov/senate/scs/wm/default.html

How Big Is The State Budget?

In the 2001-03 biennium, the state of Washington will spend a total of \$49.7 billion. That’s about \$68 million per day (on average) during the two-year spending period. This \$49.7 billion includes amounts from three different budgets, which are plans of how the state will spend the money. The three state budgets are described in the following:



2001-03 State Budgets
(Dollars in Billions)

Operating*	\$43.4
Transportation	3.8
Capital**	2.5
Total	\$49.7

* Includes appropriations in other legislation (approximately \$25.1 million)

** Excludes Capital Re-appropriations (approximately \$1.6 billion)

Sources: Winsum and Buildsum budget development systems.

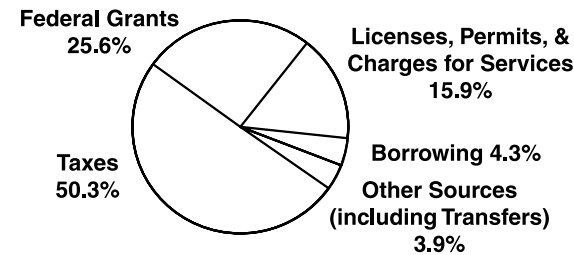
- The budget that pays for the day-to-day operation of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$43.4 billion)**.
- The budget that pays for transportation activities such as designing and maintaining roads and mass transit is called the **Transportation Budget (\$3.8 billion)**. This budget includes amounts for both transportation operating activities (\$1.75 billion) and transportation capital activities (\$2.06 billion).
- The budget to acquire and maintain state buildings, public schools, public lands, parks and other assets is called the **Capital Budget (\$2.5 billion)**.

You may also have heard about the state “general fund” budget. This refers to the spending plan for the largest fund of the state; it represents more than half of the \$43.4 billion operating budget. A discussion of the state general fund budget begins on page 6.

Where Does This Money Come From?

To pay for its activities in the 2001-03 biennium, the state will tax citizens and businesses \$25.1 billion, receive federal and other grants of \$12.8 billion, collect fees, and assess charges for licenses and permits of \$7.9 billion, and borrow \$2.1 billion; other sources (including transfers) account for \$1.9 billion. The relative size of each of these sources is shown in the following chart.

Most of the money the state uses to pay for services comes from state taxes. Washington’s major tax sources include the sales tax, property tax and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one of seven states that does not levy a personal income tax.



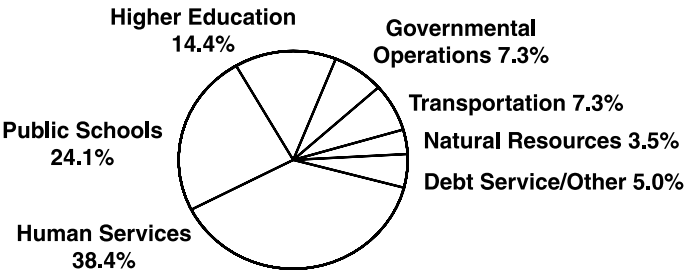
2001-03 Sources of Revenue
(Dollars in Billions)

Taxes	\$25.1
Federal & Other Grants	12.8
Licenses, Permits, & Charges for Services ..	7.9
Borrowing	2.1
Other Sources	1.9
<hr/>	
Total.	\$49.9

Note: Numbers do not add due to rounding.
Source: OFM Revsum database for 2001-03.

How Are These Funds Spent?

As the following chart shows, during the next two years, the state will spend a total of \$49.7 billion, which can be divided into seven major areas.



2001-03 All Budgeted Expenditures*
(Dollars in Billions)

Human Services.	\$19.1
Public Schools	12.0
Higher Education	7.2
Governmental Operations	3.6
Transportation	3.6
Natural Resources	1.7
Debt Service/Other.	2.5
<hr/>	
Total*	\$49.7

* Excludes Capital Re-appropriations (approximately \$1.6 billion).
Sources: Winsum and Buildsum budget development systems.

Human Services, such as mental health and other institutions, public assistance, health care, and prisons, accounts for 38.4% of total expenditures. Most human services programs are partnerships between the state and the federal government with the federal government providing about half of the money and the state providing the rest. The state provides human services to one out of every five citizens, including services to over half a million children residing in Washington.

Public Schools, which includes funding for kindergarten through 12th grade, comprises the next largest category of total expenditures, although it represents the largest component of the state general fund budget (see page 8).

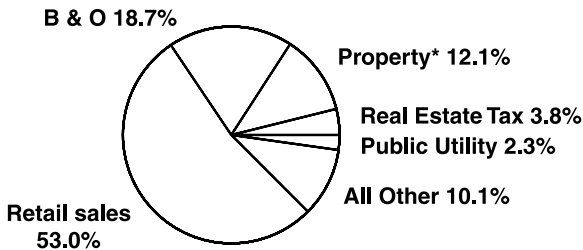
Higher Education, representing 14.4% of total budget spending, includes support for the state's four-year schools and community and technical colleges.

Transportation services and construction represent 7.3% of total budget spending including highways, state ferries, and the State Patrol, to name a few. The operating activities in Transportation account for over \$1.4 billion of total budget spending (just under 3%), and Transportation capital activities account for approximately \$2.1 billion of all spending (just over 4%).

Other total spending categories include Natural Resources activities for environmental protection, management and recreation, the administrative, judicial and legislative agencies in Governmental Operations, and other expenditures such as the payment of debt service.

What Is The State General Fund?

The state general fund is the largest single fund within the total state budget. It is the principal state fund supporting the operation of state government. All major state tax revenues are deposited into this fund.



**2001-03 Sources of
State General Fund Revenue
(Dollars in Billions)**

Retail Sales	\$11.2
Business & Occupation	4.0
Property*	2.6
Real Estate.....	0.8
Public Utility	0.5
All Other.....	2.1
<hr/>	
Total.....	\$21.2

* Excludes the amount transferred to the Student Achievement Account per Initiative 728.

Source: Economic and Revenue Forecast, November 2001

For the 2001-03 budget period, the state general fund will receive \$21.2 billion in revenues. More than half of that amount is from the state retail sales tax. The second largest tax is the B&O, which accounts for almost one fifth of the total, and the third largest tax is the state property tax, which accounts for about 12% of the total.

The state sales tax, the B&O tax, and the state property tax account for more than 80% of all state general fund revenues. In addition, the general fund relies on a public utility tax, insurance premium taxes, real estate excise taxes and a number of other smaller taxes.

Contrary to popular belief, the state lottery does not “pay” for all of K-12 education. Currently, the lottery brings in about \$226 million per biennium; Initiative 728 requires the transfer of these funds to the Student Achievement Account and the Education Construction Account. The total state budget for public schools is about \$12 billion. That means the state lottery only supports about 2% of the K-12 education budget.

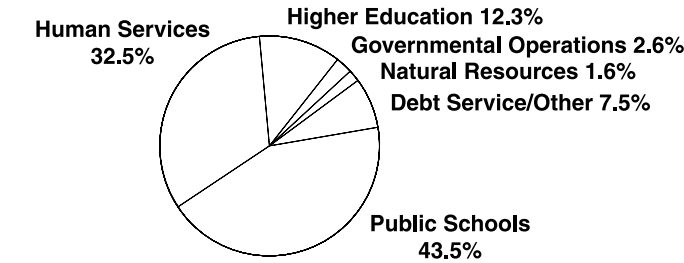
The major difference between the state general fund revenues (\$21.2 billion) and the total of all budgeted funds revenues (\$49.9 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four areas:

- Federal funds for specific federal programs (\$10.6 billion)
- Higher Education specific funds (\$4.1 billion)
- Bonds for capital purposes (\$2.1 billion)
- Gas taxes for transportation purposes (nearly \$1.5 billion)

These four sources account for two-thirds of the difference between revenues available for all state government budgets and the state general fund budget.

How Is State General Fund Money Spent?

Because of the nature of its tax sources, the state general fund receives the most attention during the budget building process. As the following chart shows, during the next two years, the state will spend about \$22.8 billion (or about \$30 million per day on average) from the state general fund, which has been divided into six major areas.



2001-03 General Fund-State Expenditures
(Dollars in Billions)

Public Schools	\$9.9
Human Services	7.4
Higher Education	2.8
Governmental Operations	0.6
Natural Resources	0.4
Debt Service/Other.	1.7
<hr/>	
Total	\$22.8

The largest single state general fund program is Public Schools which includes state support for K-12 education. Public Schools account for 24.1% of all budgeted expenditures but that share rises to 43.5% examining only the state general fund. By the end of the current biennium, the state will provide public education funding for 946,000 children.

Human Services state general fund spending consists primarily of the operating budget for the Department of Social and Health Services (DSHS), the states umbrella organization that provides medical, social, and income assistance to citizens in need. It also includes spending for the Department of Corrections and the Department of Health, among others.

Higher education spending includes funding for six public universities, 34 community colleges and technical schools, and financial aid to over 282,000 students a year attending both state supported and private colleges. Expenditures for Higher Education represent 14.4% of all budgeted funds and 12.3% of the state general fund. In addition to money from the general fund, Higher Education receives more than \$4.1 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include Natural Resources, Governmental Operations, and other expenditures such as the payment of debt service.

Why Does The Budget Go Up Year After Year?

The budget goes up each year primarily because there are more citizens to serve, those services cost more, and because citizens may request new or different services. Public education may be the easiest example of these trends.

- Article IX, Sec. 1 of the Washington State Constitution declares “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders . . .” The cost of meeting this constitutional requirement takes nearly half of the state general fund budget. In 1990 there were about 800,000 children in Washington State K-12 public schools. By the end of this biennium, enrollment will reach 946,000. The education of these additional children costs hundreds of millions of dollars. Over the same period, the population of the state as a whole is expected to increase over 1.2 million people, so there will be more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment and energy all will cost more in 2003 than they did in 1990, so the overall cost of educating each student will be more. Similarly, the personal income of the taxpayers on average will be greater.
- Finally, in 1993 the Legislature passed new requirements for public education. Referred to as “education reform”, these requirements have and will continue to change the cost of education for each child. This too will cause the budget to go up.

How is the Budget Created?

Through the budget process, the Legislature and the Governor decide how much money to raise and spend. State agencies, the Governor, the Legislature, citizens and interest groups are all involved in this process. Washington State operates on a two-year (biennial) basis, beginning on July 1st of each odd-numbered year. For example, the current budget is for the period July 1, 2001 through June 30, 2003.

Agency Requests - In late summer and early fall of each even-numbered year, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes the final decisions for his or her budget proposal.

The Governor's Budget - By law, the Governor, as the state's chief executive officer, must propose a biennial budget in December of even-numbered years, the month before the Legislature convenes in regular session. The Governor's budget is his or her proposed spending and taxation plan for the biennium.

The Legislative Budget Process - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budgets during the legislative session which begins in January. The chairs of the Senate Ways and Means and House Appropriations Committees work with their respective members and staffs to analyze the Governor's budget and develop recommendations and alternative proposals. The transportation portions of the budget are developed by separate committees in the House and Senate. Following tradition, the initiation of the budget alternates between chambers each biennium.

After each chamber has passed its version of the budget, the differences between the two must be reconciled in the budget conference process. Six fiscal leaders from both chambers and both political parties meet as a committee to prepare one legislative budget that is submitted to the full Legislature for final passage and then ultimately delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real budget.

Supplemental Budgets - In even numbered years, the Legislature will consider changes to the biennial budget in what is called a Supplemental Budget. Generally, such changes represent mid-course corrections to the two-year spending plan to account for changes in school enrollments, prison populations, public assistance caseloads, or significant changes in the economy of the state.

Please Stay in Touch!

Your comments and concerns are always appreciated. Please take a moment to tell me what's on your mind.

Dear Paull,

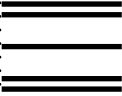
Name

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E-mail (optional)

Return Address



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